

Message Text

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ACTION EB-08

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PASS TO OED/MEPD AND OIM

E.O. 11652: N/A

TAGS: BENC, EIND, ECEM VE

SUBJECT: MAJOR PROJECTS: VENEZUELAN PETROCHEMICAL INDUSTRY

REF: CARACAS 1793, CARACAS A-002, CARACAS 76-11046,
CARACAS 76-10252, MCNALLY-CORUZZI MEMCON, 1 OCT. 1976.

SUMMARY: VENEZUELAN PETROCHEMICAL INSITITUTE (IVP) TO SHUT
DOWN KEY OLEFIN PLANT AT EL TABLAZO COMPLEX FOR SIX MONTHS FOR
REPAIR AND MAINTENANCE. U.S. FIRM M.W. KELLOGG, DESIGNER
AND CONSTRUCTOR OF PLANT, BLAMED FOR PLANT CLOSING ALTHOUGH CASE
AGAINST IT SEEMS WEAK. IVP UNDER STRONG ATTACK AND
BEING REORGANIZED INTO STATE CORPORATION TO WORK UNDER
PETROVEN. FOCUS OF PETROCHEMICAL DEVELOPMENT PROJECTS
WILL BE AT EL TABLAZO. BTX PLANT AT PARAGUANA TO BE
CARRIED OUT BY MARAVEN. SEVERAL NEW PROJECTS MENTIONED
AS POSSIBILITIES AT EL TABLAZO; (ARTIFICIAL RUBBER PLANT SEEMS
MOST LIKELY TO BE REALIZED. IVP SEEKING \$171 MILLION TO
FINANCE PAST EXPENDITURES AND INVESTMENTS IN 1977 AND 1978.
END SUMMARY.

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1. GENERAL VALENTIN MONTANA, PRESIDENT OF THE VENEZUELAN
PETROCHEMICAL INSTITUTE (IVP), ANNOUNCED ON 17 FEBRUARY
THAT THE OLEFIN PLANT AT THE EL TABLAZO COMPLEX WILL BE SHUT
DOWN FOR APPROXIMATELY SIX MONTHS FOR MAINTENANCE, REPAIR,
AND INSTALLATION OF NEW EQUIPMENT. THAT WORK WILL COST
APPROXIMATELY \$7 MILLION. IT IS ESTIMATED THAT THE LOST
PRODUCTION FROM THE OLEFIN PLANT WILL AMOUNT TO \$23.25

MILLION. IN ADDITION TO THE REPAIR AND MAINTENANCE WORK, GENERAL MONTANA SAID THAT APPROXIMATELY \$18.6 MILLION WILL BE SPENT TO INSTALL STORAGE FACILITIES FOR ETHANE AND PROPANE GAS WHICH IS NOW PURGED AND FLARED EVERY TIME THERE IS A PROBLEM IN THE OLEFIN PRODUCTION PROCESS.

2. THE OLEFIN PLANT WAS DESIGNED AND CONSTRUCTED BY THE U.S. FIRM OF M.W. KELLOGG FOR IVP. GENERAL MONTANA CLAIMS THAT KELLOGG, WHICH ALSO SERVED AS SUPERVISOR OF THE WORK ON THE OLEFIN PLANT, DID LESS THAN A FIRST CLASS JOB. MONTANA CLAIMS THAT, AMONG OTHER THINGS, KELLOGG RAN HIGH TENSION CABLE WITHOUT ADEQUATE PROTECTION OR INSULATION AND IMPROPERLY INSTALLED PIPES AND OTHER FIXED INSTALLATIONS. THE IVP HEAD ALSO CLAIMED THAT THE OVENS IN THE OLEFIN PLANT WERE POORLY DESIGNED BY THE AMERICAN FIRM. SEE ALSO CARACAS 1793.

3. GIVEN THESE ALLEGED DEFICIENCIES, IVP PLANS TO BRING SUIT AGAINST KELLOGG AND DEMAND THAT THE U.S. FIRM ASSUME RESPONSIBILITY FOR THE COST OF REPAIRING THOSE PARTS OF THE OLEFIN PLANT DAMAGED THROUGH ITS NEGLIGENCE. HOWEVER, IT WAS POINTED OUT THAT IVP'S CASE AGAINST KELLOGG DOES NOT APPEAR TO BE STRONG BECAUSE THE CONTRACT CORRESPONDING TO THE OLEFIN PLANT STIPULATES THAT THE MAXIMUM CLAIM AGAINST KELLOGG CAN NOT EXCEED \$50,000 AND THAT ANY SUCH CLAIM MUST HAVE BEEN MADE WITHIN 72 HOURS AFTER THE DELIVERY OF THE PLANT. NEVERTHELESS, IVP WILL SEEK A LEGAL BASIS IN ORDER LIMITED OFFICIAL USE

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TO PROCEED WITH ITS CASE.

4. THE DECISION TO SHUT DOWN THE OLEFIN PLANT FOLLOWED SEVERE CRITICISM OF THE VENEZUELAN PETRO-CHEMICAL INDUSTRY BY PRESIDENT PEREZ ON 12 FEBRUARY. PRESIDENT PEREZ REPORTEDLY STATED THAT IVP WAS A DISASTER AND HAD BEEN THAT WAY SINCE BEFORE HE ASSUMED THE PRESIDENCY. THE PRESIDENT DECLARED THAT HE WAS PREPARED TO SHUT DOWN THE IVP PETROCHEMICAL OPERATIONS IN ORDER TO RESTRUCTURE THEM. PRESIDENT PEREZ POINTED OUT THAT ONE OF HIS CAMPAIGN PLEDGES WAS TO STRAIGHTEN OUT IVP AND THAT HE FULLY INTENDED TO DO SO BEFORE HE LEFT OFFICE.

5. SINCE SEPTEMBER 1976 THERE HAS BEEN MUCH TALK REGARDING THE REORGANIZATON OF IVP FROM AN AUTONOMOUS INSTITUTE ATTACHED TO THE MINISTRY OF MINES AND HYDRO-CARBONS INTO A SOCIEDAD ANONIMA WHICH WILL BE UNDER THE OVERALL CONTROL OF PETROLEOS DE VENEZUELA

(PETROVEN). (IN FACT, PRESIDENT PEREZ WAS REPORTED TO HAVE SAID THAT AS OF 12 FEBRUARY IVP WAS IN THE HANDS OF PETROVEN.) THE REORGANIZATION IS EXPECTED TO BE COMPLETED IN MARCH OR APRIL 1977. IT IS HOPED THAT THE CHANGE WILL ENABLE IVP'S TOP MANAGEMENT TO GET RID OF MUCH OF THE NON-PRODUCTIVE MANAGEMENT STAFF WHICH HAS ENCUMBERED ITS OPERATIONS FOR MANY YEARS. ALSO, BY BECOMING DIRECTLY ASSOCIATED WITH PETROVEN, IT IS HOPED THAT FUNDING FOR NEW PROJECTS WILL BECOME EASIER TO OBTAIN. ANOTHER ADVANTAGE FOR IVP WOULD BE THE POSSIBILITY OF OBTAINING THE SERVICES OF THE TRAINED AND EXPERIENCED PETROLEUM REFINERY ENGINEERS OF PETROVEN FOR AD HOC USE AT EL TABLAZO OR MORON.

6. THE POST HAS BEEN INFORMED BY KNOWLEDGEABLE SOURCES THAT THE AMBITIOUS PETROCHEMICAL PLAN REPORTED IN CARACAS LIMITED OFFICIAL USE

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10252 (1976) IS UNDERGOING SWEEPING REVISIONS AT PRESENT. ONE CHANGE WHICH HAS REPORTEDLY ALREADY BEEN MADE IS THAT RESPONSIBILITY FOR THE CONSTRUCTION AND OPERATION OF THE BTX PLANT ON THE PARAGUANA PENINSULA WILL BE TRANSFERRED FROM IVP TO MARAVEN, THE LATTER IS ONE OF THE PETROVEN OPERATING COMPANIES WHICH HAS A NEARBY REFINERY. FURTHERMORE, IT IS REPORTED THAT THE BTX PLANT WILL PRODUCE ONLY ENOUGH BENZENE, TOULENE, AND XYLENE TO MEET NATIONAL DEMAND. THE CONSTRUCTION OF THE OLEFIN PLANT AT PUERTO LA CRUZ AND THE FERTILIZER PLANTS AT CARIPITO AND PUNTO FIJO (ALSO ENVISAGED IN THE PLAN) IS NOW UNCERTAIN. IN ANY EVENT, CONSTRUCTION OF THESE PLANTS ACCORDING TO THE SCHEDULES OUTLINED IN THE PLAN NOW IS OUT F THE QUEETION.

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7. DR. ALDO CORUZZI, DIRECTOR OF PLANNING AND PROJECTS FOR IVP, TOLD EMBOFF AND USDOC'S CONGER ON 9 FEBRUARY THAT IVP WOULD FOCUS ITS ACTIVITIES ON THE EXPANSION OF THE EL TABLAZO COMPLEX FOR THE TIME BEING. THE PROJECTS WHICH CORUZZI SAID ARE UNDER SERIOUS CONSIDERATION AT THIS TIME ARE A PLANT TO PRODUCE HIGH-DENSITY POLYETHYLENE (SEE CARACAS 11046, 1976), A PLANT TO PRODUCE SYNTHETIC RUBBER, AND A PLANT TO PRODUCE PROPYLENE. CORUZZI SAID THAT IVP HAD DISCUSSED THE ARTIFICIAL RUBBER PLANT WITH THE PHILLIPS INVESTMENT COMPANY (WHICH HAS A 15 PERCENT INTEREST IN QUIMICA VENOCO). PHILLIPS HAS NOT MADE A DECISION REGARDING THAT PROJECT YET. CORUZZI SAID THAT IF PHILLIPS DECIDES TO FORM A JOINT VENTURE FOR THE RUBBER PLANT, IT WILL DO SO THROUGH CALAFRAVA A SPANISH FIRM IN WHICH IT OWNS 40 PERCENT OF THE STOCK. FIRESTONE HAS ALSO EXPRESSED INTEREST IN THIS PROJECT. IT IS INTERESTING TO NOTE THAT CORUZZI INFORMED EMBOFF ON 1 OCTOBER 1976 (SEE CORUZZI-MCNALLY MEMCON) THAT THE ARTIFICIAL RUBBER PLANT HAD BEEN REJECTED AS BEING NOT FEASIBLE BECAUSE OF THE HIGH COSTS OF INPUTS IN THAT PRODUCTION PROCESS. THE PROPYLENE PLANT WOULD PRESUMABLY BE PART OF A NEW OLEFIN LIMITED OFFICIAL USE

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PLANT WHICH AN ENGINEER MENTIONED TO EMBOFF AND USDOC OFFICIAL DURING TOUR OF EL TABLAZO COMPLEX ON 11 FEBRUARY. THE ENGINEER SAID THAT IN ABOUT FIVE YEARS ANOTHER OLEFIN PLANT CAPABLE OF PRODUCING APPROXIMATELY 450,000 MT OF ETHYLENE AND 282,000 MT OF PROPYLENE ANNUALLY WOULD BE NEEDED TO SUPPLY SECONDARY INDUSTRIES AT EL TABLAZO. THE SAME ENGINEER SAID THAT THE CAUSTIC SODA/CHLORINE PLANT AT EL TABLAZO, WHICH PRODUCES APPROXIMATELY 50,000 MT OF CAUSTIC SODA AND 40,000 MT OF CHLORINE ANNUALLY, WILL HAVE TO BE DOUBLED IN SIZE IN THE SHORT-TO-MEDIUM TERM.

8. GENERAL MONTANA HAS REQUESTED THAT THE CONGRESS PROVIDE BS. 735.23 MILLION (\$171 MILLION) FOR URGENT IVP INVESTMENT PROJECTS IN 1977 AND 1978. THE FINANCING WOULD BE USED BOTH TO FUND PAST EMERGENCY EXPENDITURES (ELECTRIC POWER GENERATOR SETS AND STEAM BOILERS

ALREADY INSTALLED) AS WELL AS NEW CAPITAL INVESTMENTS. THE GENERAL LAMENTED THE CRITICISMS OF THAT REQUEST, ADDING THAT SUPERFICIAL JUDGMENTS PREVAIL IN A COUNTRY WHERE "EVERYBODY TALKS, FEW LISTEN, AND ALMOST NOBODY READS." A DECISION ON THE REQUEST IS EXPECTED BEFORE 1 JULY 1977.

9. COMMENTS: BEST INFORMATION INDICATES THAT OLEFIN PLANT WILL BE SHUT DOWN FOR MAINTNEANCE AND REPAIRS FROM ABOUT 1 MARCH TO ABOUT 1 MAY. IT WOULD THEN FUNCTION UNTIL ABOUT OCTOBER WHEN IT WOULD BE SHUT DOWN AGAIN FOR ABOUT 3 MONTHS SO THAT NEW CRACKING OVENS CAN BE INSTALLED.

10. IVP'S PLANS REGARDING NEW PROJECTS AND REORGANIZATION HAVE BEEN SUBJECTS TO CHANGE FOR MANY MONTHS. THE LIST OF NEW PLANTS PLANNED FOR EL TABLAZO SEEMS TO CHANGE FROM MONTH TO MONTH AND FROM IVP OFFICIAL TO IVP OFFICIAL. IT SEEMS FAIRLY CERTAIN THAT THERE IS SERIOUS INTEREST IN THE CONSTRUCTION OF AN ARTIFICIAL RUBBER PLANT BEGINNING IN 1978. BUTADIENE, THE ESSENTIAL RAW MATERIAL FOR THIS PROCESS, LIMITED OFFICIAL USE

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WOULD PROBABLY BE IMPORTED FROM PHILLIPS' CALATRAVA SUBSIDIARY UNTIL THE EARLY 1980S WHEN THE BTX PLANT COULD SUPPLY IT. HOWEVER, THE HIGH-DENSITY PLOYETHYLENE PLANT, THE NEW ETHYLENE/PROPLENE (OLEFIN) PLANT, AND THE EXPANDED CAUSTIC SODA/CHLORINE PLANT ARE HORSES OF A DIFFERENT COLOR.

11. THE RECENT SLAP AT IVP BY PRESIDENT PEREZ WAS YET ANOTHER REMINDER THAT IVP, AS IT IS PRESENTLY CONSTITUTED, CANNOT COPE EFFECTIVELY WITH THE TASK OF MANAGING, LET ALONE DEVELOPING, THE VENEZUELAN PETROCHEMICAL INDUSTRY. GENERAL MONTANA'S ALLEGATIONS ABOUT KELLOGG'S PERFORMANCE ARE A FAIRLY TRANSPARENT EFFORT TO FIND A SCAPEGOAT FOR IVP'S DISASTROUS OLEFIN OPERATIONS. THE SESENTIAL WEAKNESS OF IVP'S CASE AGAINST KELLOGG SEEMS IMPLICIT IN MONTANA'S ADMISSION THAT THERE ARE EXTENSIVE FILES WHICH DOCUMENT KELLOGG'S EXPLANATION FOR THE UNSATISFACTORY PRODUCTION OF OLEFINS AT EL TABLAZO (NAMELY, A DEFICIENT AND UNDISCIPLINED VENEZUELAN WORKFORCE AND REPEATED FAILURE OF UTILITIES INPUTS, I.E., (ELECTRICITY AND STEAM).

12. WHETHER THE REORGANIZATION OF IVP AS A STATE CORPORATION UNDER PETROVEN WILL BE ENOUGH TO PUT GOV-RUN PETROCHEMICAL OPERATIONS ON A SOUND FOOTING IS UNCERTAIN. WHAT IS CERTAIN IS THAT PETROVEN WOULD PREFER NOT TO HAVE TO ACCEPT IVP AS ONE OF ITS CONSTITUENT COMPANIES. PETROVEN, A YEAR-OLD ENTITY WHICH IS STILL TRYING TO STRENGTHEN ITS COORDINATION OF THE 14

PETROLEUM OPERATING COMPANIES, WILL SOON EMBARK ON A \$1 BILLION REFINERY UPGRADE PROGRAM AND COULD DO WITHOUT THE ADDITIONAL RESPONSIBILITY FOR THE DEVELOPMENT OF THE TROUBLED VENEZUELAN PETROCHEMICAL INDUSTRY. NEVERTHELESS, SOURCES WITHIN PETROVEN SEEM RESIGNED TO TAKING ON THIS RESPONSIBILITY, BUT MAINTAIN THEY WILL REQUIRE THAT CERTAIN CONDITIONS BE MET, INCLUDING (1) REMOVAL OF POLITICAL INFLUENCE FROM IVP MANAGEMENT, (2) LIMITED OFFICIAL USE

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ESTABLISHMENT OF CLEAR LINES OF AUTHORITY AND RESPONSIBILITY WITHIN IVP, (3) HONEST EVALUATION OF EXISTING INSTALLATIONS AND PROJECTS AND THE WRITING-OFF OF THOSE WHICH ARE NOT ECONOMICALLY SOUND AND (4) REALISTIC ECONOMIC EVALUATION OF ALL PLANNED PROJECTS, USING WORLD PRICES FOR RAW MATERIAL INPUTS AS WELL AS END PRODUCTS. THEY HAVE COMMENTED THAT IT MAY BE SIX MONTHS TO A YEAR BEFORE THESE CONDITIONS CAN BE MET.

13. MONTANA'S LAMENT REGARDING THE CRITICISMS OF HIS FUNDING REQUEST IS WARRANTED. IVP HAS BEEN A POLITICAL FOOTBALL FOR MANY YEARS. HOWEVER, BOTH PRESIDENT PEREZ AND THE PRIMARY POLITICAL OPPOSITION (COPEI) HAVE RECENTLY CALLED FOR THE REMOVAL OF THE NATION'S PETROCHEMICAL INDUSTRY FROM THE POLITICAL ARENA. END COMMENTS.
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Message Attributes

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Disposition Date: 22 May 2009
Disposition Event:
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